


Government of the District of Columbia
Office of the Chief Financial Officer



Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeffrey S. DeWitt
Chief Financial Officer 

DATE: September 14, 2015

SUBJECT: Fiscal Impact Statement – Local Jobs and Tax Incentive Act of 2015

REFERENCE: Draft Bill as shared with the Office of Revenue Analysis on September 8, 2015

Conclusion

The bill authorizes a 10-year, \$60 million real property tax abatement to The Advisory Board Company beginning fiscal year 2021. As fiscal year 2021 falls outside of the District's current financial plan, the impact of the bill cannot yet be incorporated into the District's budget and financial plan. If enacted, the bill will reduce real property tax collections by up to \$6 million per year. Its effect will be first incorporated into the fiscal year 2018 through fiscal year 2021 budget and financial plan, and the revenue impact will first be recognized in the February 2017 revenue certification letter, which covers the projections for the fiscal year 2018 through fiscal year 2021 financial plan period. The last year in which the abatement can be offered is fiscal year 2030.

Background

The Advisory Board Company is a publicly traded consulting firm headquartered in Washington, DC at 2445 M St., NW. The company has one other location in the District and several offices across the country and overseas. According to its website, the company's revenues are projected to be \$780 million to \$790 million in calendar year 2015, up about 40 percent from 2014, when revenues totaled \$575 million.

The Advisory Board Company's current lease at the M St., NW location expires soon, and the company plans to move its headquarters in 2019. The bill would provide the company a real property tax abatement of up to \$6 million per year, beginning fiscal year 2021 if The Advisory Board Company:

- Leases a new headquarters office of at least 425,000 square feet for at least 15 years in a planned commercial development in Mt. Vernon Square by December 15, 2015. The bill identifies the property as Lots 0025, 0039, 0041, 0800, 0825, 0830, 0831, and 0832 on

Square 0450, which is located north of New York Avenue and south of L St., NW, between 6th St., NW and 7th St., NW;

- Hires 1,000 additional District of Columbia residents over the 10 years between 2019 and 2029,^{1,2} and;
- Signs a Community Benefits Agreement to provide training and employment to underserved and overlooked communities and youth in the District. The company will also be required to provide a certain number of hours of free consulting services to District non-profits who work with such communities.

The company has not yet signed the Community Benefits Agreement or the Incentive Agreement that outlines the terms of the real property tax incentive. However, draft agreements provided by the Deputy Mayor for Planning and Economic Development suggest the following terms:

A net increase of 1,000 in District residents employed through 2029

The Advisory Board would be required to increase full-time equivalent employees who are District residents by 100 each year beginning 2019. By the end of the 10-year abatement period in 2029, this would increase the number of District residents employed by the company to 1,000. The Incentive Agreement will determine the baseline number of District-resident employees for the calculation of the tax benefit. The draft incentive agreement suggests that this number will be 865, which is the current number of District residents the company employs.

The company will receive the full \$6 million abatement only if it meets the target net increase in DC resident employee count for that year.³ If not, the incentive will be prorated by the ratio of the actual net increase in DC resident employees to the full target. For example, in 2021, in its second year of abatement, the company would need to increase its District-resident employee count by 200, from the baseline of 865 to the target of 1065 to get the full \$6 million abatement. If the company were to hire only 150 net additional District residents, meeting only 75 percent of the requirement of 200, it would receive 75 percent of the total incentive for that year, which is \$4.5 million.⁴

Reporting requirements

Each year, The Advisory Board Company will report to the District the number of full time equivalent employees who are District residents, the median salary of the said employees, and their median tenure. Based on this information (and other findings on the required community benefits) the Deputy Mayor for Planning and Economic Development will certify to the Office of Tax and Revenue the abatement amount the company is eligible to receive for that tax year. The first report will be filed by October 31, 2020.

¹ The Advisory Board Company would also be required to contract out 35 percent of the work for any tenant improvements in the newly leased space to certified small businesses or otherwise comply with District Official Code § 2-218.46 which outlines the subcontracting requirements for government-assisted projects that receive more than \$250,000 in assistance.

² The Advisory Board Company would be exempted from the First Source provisions under District Official Code § 2-219.03, which requires that government-assisted projects use the First Source Register as their first source for finding employees to fill all jobs and give preference to unemployed District residents.

³ In addition, the annual real property tax obligation under its lease would have to be at least \$6 million.

⁴ If The Advisory Board Company acquires a controlling interest in another company that employs District residents, these employees will not count towards the hiring goal—rather they would be added to the baseline resident employee figure. However, any increases in the number of District residents employed by these newly acquired businesses will be counted towards the hiring goal.

Abatement of taxes

The information from the Deputy Mayor for Planning and Economic Development suggests that The Advisory Board Company will be responsible for the real property taxes for the property it leases.⁵ Since real property tax is the responsibility of the owner of the property, if the bill is enacted, the owner of the real property will receive the tax incentive, and not The Advisory Board Company. The District has no control over the relationship between The Advisory Board Company and its potential landlord; it would be The Advisory Board Company's responsibility to ensure that its lease terms include the terms necessary to ensure that it will be credited for the abatement.

Each year, the abatement amount can change based on how many District residents are actually employed by the company compared to the target number of residents. If the company can meet its hiring target for that period, it would get the full abatement; if the hiring falls short, the abatement will be adjusted down. The Mayor will certify the abatement amount based on the hiring report filed by The Advisory Board Company during the previous year. As the company will file its first report by October 1, 2020, the first time the city would grant an abatement is tax year 2021. Half the certified abatement will be credited to the account of the property owner in the first half billing due March 2021, the other half in the second half billing due September 2021.

Community Benefits

A Community Benefits Agreement has not been signed yet but according to the draft agreement, will likely include training and training support at a District training institution such as the L.E.A.P. Academy; employing District residents (especially new graduates or unemployed resident) either directly or placing them with a partner institution in entry-level healthcare or IT positions; youth development and support through mentorship and job-placement assistance, including participation in the Summer Youth Employment Program; and volunteer and *pro-bono* consulting services to District non-profits, .

Financial Plan Impact

The bill authorizes a 10-year, \$60 million real property tax abatement to The Advisory Board Company beginning fiscal year 2021. As this year falls outside of the District's financial planning period, the impact of the bill cannot yet be incorporated into the budget and financial plan. If enacted, the bill will reduce real property tax collections by up to \$6 million per year. Its fiscal effect will be incorporated into the fiscal year 2018 through fiscal year 2021 budget and financial plan, and the revenue impact will first be recognized in the February 2017 revenue estimates, which will provide projections for the fiscal year 2018 through fiscal year 2021 financial plan period. The last year in which the abatement can be offered is fiscal year 2030.

The bill caps the annual real property tax abatement at \$6 million. The abatement amount could be lower than the authorized amount if the company does not meet its hiring goals, if its real property tax obligations for the leased space is less than this cap, or if the company fails to meet other requirements such as annual reporting requirements or community benefits requirements. However, these will not be known until the development is completed, the lease is signed, and the

⁵ This is known as a "net-net-net lease," which designates the tenant responsible for all of the costs of the leased space in addition to the rent, including real estate taxes on the leased asset, building insurance premiums, and common area maintenance.

The Honorable Phil Mendelson

FIS: "Local Jobs and Tax Incentive Act of 2015," Draft Bill as shared with the Office of Revenue Analysis on September 8, 2015

company begins filing its annual hiring reports. Therefore, the District must incorporate in its budget each year the maximum potential benefit authorized by the bill.